

October 23, 1980

POSITION PAPER
of
Commissioner James H. Quello

In re: Computer II Reconsideration

After reading the Computer II item, I believe that the Staff is to be commended for resolving some of the serious problems presented by the language of the Final Report. However, I believe a few flaws remain which could and should be addressed and resolved before we complete our action in this very important matter.

First, I am far from convinced that there are valid public interest reasons to prohibit the enhanced-service subsidiaries of the dominant carriers (AT&T and GTE) from owning their own transmission facilities. If the Commission desires these subsidiaries to be truly competitive with the other unregulated competitors, I believe it is essential that they have the capacity to construct their own facilities. In a competitive environment, the subsidiaries will be locked into a fixed component in their pricing--tariffed facilities rates -- which will not necessarily apply to their competitors. In addition, there might well be instances where there are no existing facilities to provide a needed service and the construction of those facilities could not be justified by the parent operating solely in its basic service environment. While concerns have been expressed about the potential for transfer pricing, I believe those concerns can be met through accounting procedures and through the Commission's continuing scrutiny of the basic service carrier. In short, I believe the public would be better served by permitting the dominant carriers--through their separate subsidiaries--to participate fully in the competitive market than to require a limited form of competition through a fear of potential abuse.

My second concern is that we are being too narrow in our definition of "basic" service. I believe that the definition can be made to include such services as voice storage and forwarding without doing serious violence to our concept of separating basic from enhanced services. It's clear to me that these voice storage services--many of which have been offered within the network for years--provide a needed and valuable service to the public and that they do not involve any kind of data processing except that which is transparent to the user. The use of recorded voice, it seems to me, simply provides a more convenient means of doing what the network has always done; i. e., deliver voice messages exactly as they were introduced. By permitting this kind of service to be offered by the basic service entity, we would be merely encouraging new and innovative services which might not be provided to the public otherwise.

There is another concern which has been raised in the comments that I believe should be addressed in our document. At least one of the carriers has expressed the fear that, should its subsidiary become successful and provide a return greater than the return prescribed for the parent, federal and/or state regulators

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might be tempted to dip into these profits to hold down prices of regulated services. I don't think that's what we intend and I believe that we should say so in rather explicit terms in the document. Certainly the competitive subsidiary will be running all of the risks of any other competitive entity and should expect to reap any rewards which might result from this activity.

Those are my main concerns at this point. I will not be present for the discussion on the 28th., but I have asked that the item be circulated so that I can participate in the vote. My staff will be present during the discussion and I expect to receive a full report before I cast my vote.